

Message Text

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TO SECSTATE WASHDC PRIORITY 3289

C O N F I D E N T I A L SECTION 1 OF 2 ACCRA 3221

E.O. 11652: GDS
TAGS: EAID, ECON, EFIN, EALR, IMF, GH
SUBJ: POSSIBLE MAJOR ECONOMIC POLICY DECISIONS FORTHCOMING

REF: ACCRA 2017

1. SUMMARY: A GOG TASK FORCE HAS DRAWN UP AN ECONOMIC POLICY PACKAGE WHICH FINANCE COMMISSIONER APPIAH IS DISCUSSING DIRECTLY WITH THE HEAD OF STATE, GENERAL ACHEAMPONG. PACKAGE DOUBTLESS INCLUDES SOME FORM OF DEVALUATION, MORE NEARLY BALANCED BUDGET, INCREASED TAXES, REMOVAL OF INTERNAL PRICE AND DISTRIBUTION CONTROLS, AND OPERATION OF PUBLIC SECTOR INDUSTRIES ON COMMERCIAL BASIS. ALTHOUGH WE DO NOT YET KNOW WHETHER ACHEAMPONG WILL DECIDE TO IMPLEMENT ANY ECONOMIC REFORMS NOW, THIS IS MOST SERIOUS CONSIDERATION OF SUCH ECONOMIC POLICIES SINCE GOG DELEGATION MET WITH IMF IN WASHINGTON LAST JUNE. WE HAVE INDICATED INFORMALLY TO GOG OFFICIALS THAT THIS MISSION WOULD RECOMMEND TO WASHINGTON SIGNIFICANT U.S. ASSISTANCE (I.E., PL-RIP TITLE I), IF REQUESTED, TO SUPPORT REALLY SERIOUS EFFORT AT IMPLEMENTING NEEDED ECONOMIC REFORMS, THAT IS PROGRAM SUPPORTED BY IMF. ON BALANCE, HOWEVER, WE REMAIN SOMEWHAT DOUBTFUL THAT THE "POLITICAL WILL" EXISTS FOR THE GOG MOVING AHEAD WITH SUCH A PROGRAM AT THIS TIME. END SUMMARY.

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2. REFTTEL REPORTED FORMATION OF GOG COMMITTEE TO RECOMMEND NEW POLICIES TO REVERSE CURRENT DETERIORATION OF ECONOMY. THIS TECHNICAL GROUP, CHAIRED BY DR. J.L.S. ABBEY, CHIEF GOG STATISTICIAN, HAS COMPLETED ITS WORK UNDER THE DIRECTION OF A CABINET COMMITTEE COMPOSED OF FINANCE COMMISSIONER APPIAH (CHAIRMAN), ECONOMIC PLANNING COMMIS-

IONER R.K. A. GARDINER, BANK OF GHANA GOVERNOR ASHIAGBOR, CAPITAL INVESTMENTS BOARD EXECUTIVE CHAIRMAN ADUSEI-POKU, AND DR. ABBEY. ITS RECOMMENDATIONS HAVE GONE TO THE SMC AND, WE UNDERSTAND FROM DR. ABBEY AND ADUSEI-POKU, COMMISSIONER APPIAH IS DISCUSSING MATTER DIRECTLY WITH HEAD OF STATE.

3. AT THIS POINT, WE HAVE VARYING ACCOUNTS OF SITUATION. ECON COUNSELOR AND USAID PROGRAM OFFICER DISCUSSED STATE OF PLAY WITH DR. ABBEY ON APRIL 18 AND DCM DISCUSSED MATTER WITH ADUSEI-POKU ON APRIL 20, AND WHAT MUST BE THE MAJOR ELEMENTS IN THE POLICY PACKAGE WERE DESCRIBED IN APRIL 14 ADDRESS BY COMMISSIONER APPIAH TO THE GHANA MANUFACTURERS' ASSOCIATION.

4. DR. ABBEY OFFERED NO DIRECT DESCRIPTION OF PACKAGE AND SAID THAT FIRST, ALL-IMPORTANT RECOMMENDATION TO SMC CHAIRMAN AND HEAD OF STATE WAS SIMPLY TO AGREE TO ADDRESS PROBLEM SERIOUSLY. IF THIS "PRINCIPLE" WAS ACCEPTED, THEN VARIOUS "MODES" OF ACCOMPLISHING NEEDED REFORMS COULD BE CONSIDERED. BY IMPLICATION, THE PACKAGE INVOLVED SOME FORM OF EFFECTIVE DEVALUATION OF THE CEDI, REMOVAL OF INTERNAL CONTROLS AND DEMAND MANAGEMENT (SLOWING GROWTH OF MONEY SUPPLY). ADUSEI-POKU, WHO MEETS HIS RESPONSIBILITIES FOR PROMOTING FOREIGN PRIVATE INVESTMENT BY CALLING ON AN INEXHAUSTIBLE SUPPLY OF OPTIMISM, IMPLIED STRONGLY THAT PACKAGE INCLUDED DEVALUATION, AND SAID THAT NEED FOR CONFIDENTIAL

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SERIOUS MEASURES HAD ALREADY BEEN ACCEPTED AT HIGHEST LEVEL. HE ALSO SAID THE PACKAGE HAD TO BE ACCEPTED AS A WHOLE, ADDING THAT NUMEROUS MEASURES MUST BE TAKEN PROMPTLY, WHILE OTHERS COULD BE INCLUDED IN THE BUDGET FOR FY 1979 (JULY TO JUNE).

5. THE BEST CLUES TO THE CONTENTS OF THE PACKAGE EMERGE, BY INFERENCE, FROM COMMISSIONER APPIAH'S ADDRESS TO THE GHANA MANUFACTURERS' ASSOCIATION (TEXT FOLLOWS BY AIRGRAM). SPEECH IS EFFORT TO OBTAIN SUPPORT FOR ECONOMIC REFORM FROM INFLUENTIAL GROUP WHOSE COOPERATION WILL BE ESSENTIAL TO SUCCESS OF ANY STABILIZATION PROGRAM. APPIAH CITED FOLLOWING POLICY AREAS AND REQUIREMENTS:

A. ECONOMIC GROWTH AND FOREIGN ASSISTANCE. "THE BASIC PROBLEM FACING THE ECONOMY IS HOW TO GENERATE ECONOMIC GROWTH..." "WE URGENTLY REQUIRE A SUBSTANTIAL FOREIGN CURRENCY INJECTION. IN THE SHORT-TERM WE CAN ONLY GET IT MY MEANS OF BORROWING. AND MOST SOURCES OF SUBSTANTIAL FOREIGN LOANS WILL INSIST ON THE INTRODUCTION OF DISCIPLINE INTO THE ECONOMY OF GHANA." "WE SHOULD NOT SIT BY AND WAIT TILL ECONOMIC DISCIPLINE IS PROPOSED FROM ABROAD.

WE SHOULD INITIATE SUCH POLICIES BY OURSELVES."

B. BUDGETARY DISCIPLINE. APPIAH CITES AS NECESSARY STEPS, "CONTROL OVER EXPENDITURES," A "SLOWDOWN IN MONETARY EXPANSION WHICH IS UNRELATED TO PRODUCTIVE ACTIVITY" AND A "PROGRAM TO REMOVE FROM DEPENDENCE ON THE BUDGET ALL PUBLIC SECTOR ENTERPRISES WHICH ARE OF A COMMERCIAL NATURE." ON REVENUE SIDE, HE CITES IMPROVEMENT IN TAX COLLECTION AND ENDING OF TAX CONCESSIONS, EXCEPT FOR INDUSTRIES "EXPLOITING NATION'S NATURAL RESOURCES" OR WHICH "TAKE GREAT RISKS SUCH AS IN AGRICULTURAL INVESTMENT."

C. EXCHANGE CONTROLS. "WE MUST DISMANTLE EXCHANGE CONTROLS TO THE BAREST MINIMUM" (THIS IS CLOSEST HE COMES TO ANY CONFIDENTIAL

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MENTION OF DEVALUATION).

D. PRIVATE INVESTMENT. "WE MUST TRANSFER TO FOREIGN SHAREHOLDERS THE PROFITS WHICH THEIR INVESTMENTS IN GHANA HAVE YIELDED TO THEM OVER THE YEARS. FOR THIS IS THE WAY TO ENCOURAGE THE FLOW INTO GHANA OF THE RIGHT KIND OF FOREIGN CAPITAL, TECHNOLOGY AND MANAGEMENT."

E. INTERNAL PRICE AND DISTRIBUTION CONTROLS. APPIAH WAS PARTICULARLY BLUNT IN ATTACKING CONSUMER AFFAIRS COMMISSIONER KOFI BADU'S EFFORTS TO DISTRIBUTE ESSENTIAL COMMODITIES THROUGH COOPERATIVES, (77 ACCRA 9481; 78 ACCRA 996 AND MEMCON OF FEBRUARY 8, 1978), THE LATEST IN A LONG

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C O N F I D E N T I A L SECTION 2 OF 2 ACCRA 3221

SERIES OF POLITICALLY-MOTIVATED INTERFERENCES IN THE MARKET (KOFI BADU AHS BEEN IDENTIFIED AS ONE OF THOSE IN THE CASTEL WHO OPPOSES ADOPTION OF APPIAH'S RECOMMENDATIONS). APPIAH SIAD "MR. PRESIDENT (OF MANUFACTURERS' ASSOCIATEIN,) REGARDING THE CURRENT SYSTEM OF DISTRIBUTION, I NOTICE YOU ARE SOMEWHAT WORRIED AS TO WHAT IT IS EXPECTED TO ACHIEVE. WELL, THAT MAKES TWO OF US**"..."THE ESSENCE OF MY POINT IS THAT A LONG-TERM IDEAL (I.E., THE COOPERATIVE SYSTEM) MUST NOT BE MISTAKEN FOR AN ADEQUATE REPLACEMENT TO A TRIED PRACTICE -- THAT IS, THE SALE OF GOODS WITHIN THE BROADLY DEFINED INSTITUTION OF THE MARKET."

6. WE ALSO UNDERSTAND THAT COMMISSIONER APPIAH PLANS, IF THIS PROGRAM IS APPROVED AND IMPLEMENTATION ACTION BEGUN, TO VISIT WASHINGTON IN SEPTEMBER FOR DISCUSSIONS WITH THE IMF, ON THE BASIS OF AN EXISTING GOG PROGRAM.

7. COMMENT: WE DOUBT THAT THE HEAD OF STATE HAS, IN FACT, YET DEFINITELY DECIDED ON SERIOUS PROGRAM OF ECONOMIC POLICY CHANGES. HOWEVER, TIME MAY BE ABOUT AS FAVORABLE AS IT IS LIKELY TO BE FOR MONTHS TO COME. MARCH 30 REFERENDUM ON UNION GOVERNMENT, A MAJOR STEP IN THE POLITICAL PROCESS TOWARD THE HEAD OF STATE'S COMMITMENT TO RE-ESTABLISH CONSTITUTIONAL GOVERNMENT AND TO WHICH THE CASTEL DEVOTED CONFIDENTIAL

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INTENSE ATTENTION IN FEBRUARY AND MARCH, IS NOW OVER. REFERENDUM RESULTS REVEALED DEPTH OF DISCONTENT OVER PRESENT ECONOMIC PROBLEMS, E.G., SHORTAGES, INFLATION. TO WAIT WILL BE TO SEE THESE PROBLEMS CONTINUE AND DISCONTENT INCREASE, WHILE PROMPT ACTION MIGHT WIN SUPPORT OF SOME OPPOSITION ELEMENTS. TO THESE INTERNAL FACTORS MUST BE ADDED MODEST DEGREE OF EXTERNAL PRESSURE FROM THE IMF, IBRD (REFTEL), AND SOME BILATERAL DONORS (FRG WILL COMMIT NO NEW CAPITAL AID TO GHANA, WHILE ITS EXPORT PROMOTION ORGANIZATION REMAINS UNPAID FOR CERTAIN SMALL, LONG-STANDING DEBTS.), SUCH PRESSURES WERE MENTIONED BY APPIAH IN HIS SPEECH, AS NOTED ABOVE. ON OTHER HAND, THE NEGATIVE POLULAR REACTION TO THE PREVIOUS DEVALUATION IN DECEMBER 1971, PROVIDED ACHEAMPONG WITH THE SPECIFIC POLITICAL ISSUE NEEDED TO OVERTHROW THE BUSIA GOVERNMENT, WHILE THE PRESENT DISPARITY BETWEEN OFFICIAL AND UNOFFICIAL ECONOMIC ACTIVITY PERMITS A WIDE VARIETY OF OPPORTUNITIES FOR THE POLITICALLY INFLUENTIAL TO MAKE MONEY. AS DR. ABBEY PUT IT "THE MOUTH WON'T SAY 'YES', WHILE THE POCKET SAYS 'NO'."

8.. WE ARE IMPRESSED WITH THE DEGREE TO WHICH GOG WISHES TO ACT INDEPENDENTLY OF DONORS, A POINT STRESSED BY COMMISSIONER APPIAH IN HIS APRIL 14 ADDRESS (PARA 5A ABOVE). AND ONE REFLECTED IN HIS PLAN (AS WE UNDERSTAND IT) TO TALK TO THE IMF ONLY AFTER A PROGRAM IS INITIATED. WE DOUBT, HOWEVER, THAT EFFECTIVE SUPPORT COULD BE MOBILIZED FROM BILATERAL DONORS WITHOUT AT LEAST SOME IMF INVOLVEMENT.

9. WHATEVER THE OUTCOME OF THE APPIAH-ACHEAMPONG MEETINGS, THE ISSUE OF ECONOMIC REFORM IS UNDER CONSIDERATION AT THE HIGHEST LEVEL, FOR FIRST TIME SINCE JUNE 1977 MEETINGS WITH IMF IN WASHINGTON. AS AN IMPORTANT BILATERAL DONOR, WE ARE INTERESTED IN SEEING GHANA
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ADOPT ECONOMIC POLICIES WHICH WILL PERMIT ECONOMIC DEVELOPMENT AND HOLD THE PROMISE OF REVERSING THE PRESENTLY DECLINING PER CAPITAL LIVING STANDARDS. AT SAME TIME, WE WISH TO AVOID APPEARANCE, WHICH WOULD CERTAINLY BE COUNTER-PRODUCTIVE, OF PUTTING PRESSURE ON GOG TO ADOPT REFORMS. ACCORDINGLY, WE ARE QUIETLY TELLING INVOLVED GOG OFFICIALS THAT IF THE GOG ASKS, THIS MISSION WOULD RECOMMEND TO WASHINGTON USG SUPPORT FOR A REALLY SERIOUS SET OF ECONOMIC POLICY MEASURES, THAT IS, MEASURES SUPPORTED BY THE IMF. SUCH SUPPORT COULD TAKE THE FORM OF A PL-480 TITLE I OR A PL-480 TITLE III PROGRAM AND/OR SUPPORTING ASSISTANCE.
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